

Housing Co-operatives in the United Kingdom

History

Literature indicates that in the 1770s the United Kingdom saw the emergence of joint building societies. Set up to face the terrible housing conditions brought on by rapid urbanisation, these societies were organized as mutual savings and loan societies. The first building societies were 'terminating' societies that wound-up when all members were housed. Many building societies still survive and form a major part of the financial services sector in the UK; a sector that has not suffered as severely as commercial banks in the global financial crisis.

It was one of the aims of the founders of the Co-operative Movement, The Rochdale Pioneers, "to build a number of houses for members" after achieving their first aim of "the establishment of a store" to sell basic necessities to members which began trading on 21 December 1844. The first housing provided by a co-operative was built in Spotland Road, Rochdale by the Rochdale Pioneer Land and Building Company in 1861. This was taken over by the main Rochdale Equitable Pioneer Society in 1869; the main society having built eighty four homes for members itself in Equitable Street and Pioneer Street, Rochdale in 1867.

The second wave of co-operative housing development came with the tenant co-partnership movement in the early 1900s. Starting in 1901 with the founding of Ealing Tenants and the development of the co-partnership at Brentham Garden Suburb, the name is showing the close alliance to the garden city movement of pioneering architect Ebenezer Howard. Other well known examples of co-partnership housing are at Hampstead Garden Suburb, now one of the most expensive parts of London, and Letchworth Garden City. The development of co-partnership housing was interrupted by the First World War. After the war legislation gave the co-partnership movement the same access to government aid as council housing, but in the post war world, most councils chose to build for themselves. The co-partnership movement slowly failed because it was funded by a mix of funding from tenants and non resident investors, the involvement of the latter creating pressure for the sale of the homes, with some greedy asset stripping along the way.

From the end of the 19th century to the mid 1970s, the UK public housing policy was dominated by the encouragement of individual home ownership and the creation of a large portfolio of council housing (public housing) which today provides housing to approximately 19% of the population (72% being owner occupiers and the remainder living in homes rented from not for profit housing associations and private sector landlords).

The third wave of co-operative housing development began in the 1960s with the development of Co-ownership housing. This was genuine co-operative ownership and management by residents who paid a monthly rental to meet the cost of servicing the mortgage borrowed by the co-operative to build their homes. It was made affordable by government tax relief on the mortgage loan. When members moved out they were entitled to a premium payment calculated by a formula in the lease. With rising interest rates and market house prices, to which member premium payments were linked, co-housing became increasingly less affordable in the late 1970s. Over 40,000 co-ownership homes were built, but most co-ownership societies were wound-up in the early 1980s when the Conservative government led by prime minister Margaret

UNITED KINGDOM

Thatcher have members the right to wind-up their society and own their own homes individually; this policy often generating windfall gains for members fortunate to be resident at the time.

The fourth wave of UK housing co-operatives are relatively young compared to others European countries. They were founded in the 1970s and 1980s with government assistance programs designed for low- and mid-income families. In addition, a small group of housing co-operatives have developed without government assistance using member loans and mortgages to raise funds and growth. The political agenda changed in the 1990s favouring large-scale housing associations as the social housing instrument over housing co-operatives. For that reason, the development of new housing co-operatives practically ceased in the 1990s. However, the housing co-op movement is now participating actively in the reorganization of the council housing stock through the tenant management co-operatives and the stock transfer housing co-operatives. At the last reliable count in 2002 there were 247 co-ops registered with the Housing Corporation, the then government funder and regulator, 25 remaining co-ownership societies whose members had resisted winding their societies up, 202 tenant management organisations (many of which are registered as co-operatives). There are also two community gateway resident-led housing associations that have taken over the ownership their members' council homes and four similar community mutual associations in Wales.

A fuller history of the development of housing co-operatives in the UK can be found in the report by CDS Co-operatives 'Common Ground for Mutual Home Ownership'

www.cds.coop/about-us/publications/common-ground-for-mutual-home-ownership/

Context

For a number of years, the country has been facing major housing challenges. As in many developed countries, the UK is facing serious problems with housing affordability both for the low- and middle-income families. Council housing buildings need major capital repair after years of underinvestment between 1979 and 1997. There are a high and increasing number of homeless households in temporary housing. The present labour government's target is to build 3 million new homes by 2016 to met demand caused by demographic change and a rising population.

The government is committed to bring all public sector homes to a decent standard and all social housing to a minimum standard of fitness by 2010 with a plan to transfer hundreds of thousands of homes annually to not for profit housing associations. Sustainable communities, tenants' involvement and an increasing role for the housing associations are at the heart of the new state policy. In that context, the co-op housing movement, in collaboration with other housing organizations, is proposing several innovative initiatives such as the Community Land Trust, the Mutual Home Ownership and the Community Gateway strategies. Issues such as availability of land and financing, appropriate legal framework, sustainable development and community engagement are being addressed by these initiatives. However, like the US and other western economies values in the UK housing market has fallen rapidly in the wake of the global financial crisis and new housing starts have fallen to the lowest number ever in peacetime, with just 86,000 new home registrations this year in comparison to a government target of 246,000.

Ironically, the financial crisis may prove to be a stimulus for new housing co-operative development. Large housing associations, the main developers of new affordable housing in recent years, can no longer cross subsidise development from profits on homes built for sale. This will force government to increase capital grant subsidy rates which could enable new rented co-operative housing to be developed. Also co-operatives have a unique status in English law which should enable them to access investment from long term investors, which may lead to the development of a new wave of Mutual Home Ownership co-operatives in which members have an equity stake similar to the co-ownership societies of the 1960s and 70s.

Interest in the potential of co-operatives has also stimulated the establishment of the Commission on Co-operative and Mutual Housing (website: www.ccmh.coop). The aim of this independent commission chaired by Adrian Coles, the Director General of the UK's Building Societies Association, is:

- Developing an up-to date picture of English co-operative and mutual housing
- Analysing the environment in which co-operatives work
- Undertaking case studies of mutual housing organisations
- Assembling evidence about co-operatives and mutual housing
- Highlighting Commission findings and promoting recommendations

Another challenging issue for UK housing co-operatives is the investigation made by the European Commission following complaints made by large shareholding companies against French, Spanish and Italian co-ops. The decision to be made by the European Commission may badly affect all co-ops across Europe, including in the UK. The issue at stake through this investigation is the recognition of the co-op's difference through its democratic and social values and its unique legal and financial systems.

The Co-operative Housing Movement

Founded in 1993, the Confederation of Co-operative Housing (CCH) is the UK organisation representing housing co-operatives. Its membership is opened to housing co-operatives, regional federations of housing co-operatives and tenant-controlled housing organizations. The Confederation's objectives are to promote co-operative and tenant controlled housing as a viable alternative form of tenure, to represent their interests and to provide a networking forum.

The General Council is the governing body of CCH. The election of the thirty-five board members is based on regional, special interest federations and at large representations. Meetings of the GC are held every six weeks and are opened to the public.

CCH works closely with the co-operative movement through the Co-operative Housing Group. Current key issues are the three following innovative strategies: Community Land Trust, Mutual Home Ownership and Community Gateway. Finally, CCF and Co-ops UK are currently looking at a joint membership approval. In recent years CCH has also developed a close working partnership with the National Federation of Tenant Management Organisations (www.nftmo.com/)

UNITED KINGDOM

For more information, see www.cch.coop

There is also another national network called Radical Routes. The membership includes small housing co-operatives developed through member loans, few workers co-op and social centres. It is a form of structured mutual aid seeking social changes.

Other co-op housing membership based organisations are very active in the UK providing support services to housing co-ops such as the Co-operative Development Society Limited (CDS Co-operatives (www.cds.coop), and BCHS in Birmingham (www.bchs.org.uk/)

Statistics

One of the aims of the Commission on Mutual and Co-operative Housing is to research and collate up to date statistics about housing co-operatives and other mutual forms of housing tenure. An interim report on these research findings is due to be published by the commission in January 2009 and will be published on its website at www.ccmh.coop.

Description

There is no specific legal structure for co-ops in the UK. However, the Industrial and Provident Society (IPS) Act under which co-ops are incorporated contains statutory protection of the co-operative principles and requires co-ops to comply with the seven internationally adopted co-op principles.

There are currently 4 types of housing co-operatives in the UK: ownership housing co-operatives (with four different variations), tenant management housing co-operatives, short-life housing co-operatives and self-build housing co-operatives.

1. Ownership Housing Co-operatives

With government assistance

Most ownership housing co-operatives were developed in the 1970s and 1980s with government assistance in the form of capital grants to make rents more affordable. Today, there are 250 housing co-operatives registered with the Tenant Services Authority (TSA) as providers of low cost housing rental housing. The Tenant Services Authority has recently been created as the new government agency responsible for regulating affordable housing providers in the UK. The TSA replaces the Housing Corporation, which formerly regulated and funded low cost rental housing provided by not for profit housing associations and co-operatives to. Because public funds were provided, the TSA closely monitors the operations of these co-operatives. Key characteristics are:

- They are fully mutual, i.e. members must be tenants, tenants must be members.
- They are owned, managed and controlled democratically by the members/tenants on one member, one vote basis. They elect a management committee (board of directors). The majority employs staff or buys operational services from agencies or housing associations.

UNITED KINGDOM

- The members/tenants collectively own the property but each member/tenant does not have individual equity in the property.
- They are traditionally quite small (an average of 50 houses) and they are found to be the most successful housing providers in the country (the finding of an independent research report by accountants Price Waterhouse Coopers in 1996).
- As a requirement, a portion of vacant units must be filled through waiting lists maintained by the local housing authority, usually a minimum of 50%.

Without government assistance

There is also a small portfolio (around 25) of ownership housing co-ops developed without public funding. These housing co-operatives are financed through mortgages and member loans. To that effect, they have set up a support network (Radical Routes) along with an investment tool (Rootstock) that every housing co-operative must invest in. Key characteristics are:

- They are fully mutual.
- They are communal housing.
- They have an elaborate recruitment process along with strict eligibility rules .
- Low-income people are eligible for housing allowances.
- Their investment tool can lend them around 20% to 30% of the purchase value.

Mutual Home Ownership

A new co-operative housing model called Mutual Home Ownership is being developed for modest income households in areas where high property prices have priced them out of the home ownership market. This model is based on a community land trust model whereby the land is held in perpetuity by the trust, removing it from the effects of market speculation. The residents/members own equity shares in the project and are able to sell upon leaving. Key characteristics are:

- Members pay for the building cost; the land is the property of the Community Land Trust. The mortgage is held by the co-operative.
- The Land Trust leases the land to the co-operative at a minimal rent with the obligation to build a specific project.
- Members accumulate some equity in the co-operative through the division of the built asset into units of property equity, each having a base value of £1,000 at the date of issue, that members are required to take-up and finance according to their income and ability to finance them.
- Outgoing member's units of property equity are sold when the lease is assigned to a new member. The value of the equity is determined by increases in average earnings so that it remains affordable.
- Members are expected to contribute a personal financial commitment by financing 10% of their equity stake as a cash investment.
- Members sign a lease that sets out the occupancy rights and responsibilities and their right to an equity payment when they leave.
- Monthly rent is at 35% of the member's net income.

- In the wake of the global financial crisis, the financing of Mutual Home Ownership has been structured to be attractive to long term institutional investors such as pension funds and life assurance companies

Stock Transfer Housing Co-operatives

Stock transfer of council housing to non-governmental housing associations was introduced in 1988. The impetus behind the initiative was the need to renovate the housing stock in the control of local councils and the borrowing limitations placed on council's by central government. Improved governance was also another factor in the transfer from local government to non-government management.

Stock transfer is a voluntary process and the tenants are involved in the decision making process. Transfer is done to a registered low cost rental housing provider– a status given to organisations that are registered with and regulated by the government's Tenant Services Authority and is required to meet the performance and governance standards set by the TSA.

The selling formula of council housing properties to registered providers is complex and based on a “discounted cash-flow model of valuation deriving from income and expenditure projections over a thirty-year period¹”. Sometimes, the cost of repairs and outstanding debts create a negative equity and the transfer is done at no cost, plus a grant to the –not for profit registered provider or housing co-operative. When the value is positive, the registered provider borrows money to finance the transfer from the private finance market, although this may now be hard to come by for future transfers.

Stock transfer can also be approached with the Community Gateway Model developed by the co-operative housing movement. It is a step-by-step process to facilitate the housing stock transfer, which could eventually lead to the set up a new registered not for profit ‘community gateway association’ which is locally controlled by the residents it serves, all of whom have the right to become members by paying a nominal £1 for a non equity voting membership share.

For more information about the Community Gateway approach to council housing stock transfer see the information of the website of the Confederation of Co-operative Housing at:

www.cch.coop/gateway/index.html

2. Tenant Management Housing Co-operatives

This form of housing co-operative is the most significant growth opportunity for the co-operative movement in the UK. Legislation adopted in 1994 gave all tenants of council housing the legal *Right to Manage* their cooperatives, giving tenants for the first time housing management and maintenance responsibilities. Key characteristics are:

- The actual ownership of the properties rest in the hand of the local government, but the management is done by the co-operative.

¹ 2004 UNECE Conference in Vienna, Mary Taylor, Housing Policy Practice Unit, University of Stirling

- A feasibility study is carried out as well as an assessment of tenants' interest as a first step. A proposal is presented to the tenants, which include the feasibility study and the management agreement. The co-operative is formed by a majority vote.
- A management agreement is signed between the local authority and the co-operative. The co-operative has the option to take on management responsibilities gradually through the Modular Management Agreement. The agreement also includes a financial arrangement (management allowance) to cover the costs of the transferred management activities. The management is signed for 5 years. Tenants are asked to evaluate the arrangement to determine whether they wish to maintain the agreement.
- Tenant management housing co-operatives democratically elect the board of directors or management committee entirely, which is entirely composed of tenants.
- Government grants are available to assist in the formation of these housing co-operatives.

Evaluation reports point to the success of these co-operatives (tenants' satisfaction, economical operating costs, building upkeep, rent collection, safety, community and residents services, etc.)

3. Short-life Housing Co-operatives

Short-life housing co-operatives, most of which are in London or southern UK, take over properties that are not commercially rentable, for a fixed period of time, which can be continued for a number of years. The co-op does not own the properties, but has a lease with the landlord. The tenant-members are responsible for keeping the property in good order and carrying out minor repairs.

Like ownership housing co-operatives, short life co-operatives are registered as co-operative societies under the provisions of the Industrial and Provident Societies Act 1965, members having a 'par value' nominal £1 non equity share in the co-operative. Short life co-operatives have declined in numbers in recent years because landlords, mainly local councils or other public bodies have been taking the housing back for improvement or sale.

4. Self-build Housing Co-operatives

Self-build housing co-operatives are housing organisations where the members have been involved in the building of their properties. The labour that they put into building their properties gives them a "sweat equity" in a form of a percentage of the property. They also pay a rent for the operating costs. Only a small number of self-build co-operatives exist and each has different arrangements, mainly in partnership with a registered provider of low cost rental housing.

Financing

The current financing options for housing co-operatives are:

Government grants from the new Homes and Communities Agency. The level of grant funding will, in future, depend on the availability and cost of finance from the private commercial markets and cannot be predicted with any certainty. It also depends on the scheme costs, location and local affordable target rent. Cooperatives must secure part of their own financing, which is now increasingly challenging in the post credit crisis world.

UNITED KINGDOM

The Co-operative Housing Finance Society (CHFS) is an independent financial intermediary organisation that enables housing co-operatives to get mortgage financing by providing private lenders with a twelve-month mortgage interest guarantee. CHFS has been set up by CDS Co-operatives. CHFS is looking to expand its role as a potential deposit taker and provider of finance for co-operative housing developments, including Mutual Home Ownership.

Rootstock, an ethical investment tool set up by the organisation Radical Roots lends money to their housing co-operative members. Key characteristics are:

- Each housing co-operative member of Radical Roots must contribute a minimum amount to Rootstock
- Money invested in bank and building society accounts having ethical policies (Triodos Bank, the Co-operative Bank, the Ecology Building Society) and in Radical Routes in the form of withdrawable shares
- Limited interest paid on investment and usually in the form of withdrawable shares (can be cashed at any time subject to usual notice period)
- Investors are asked to forgo their right to interest or to ask for only half of the normal level of interest
- Lending can amount between 20% to 30% of purchase value
- Since 1991 –loan value of E573,000 (on Rootstock website: 40 loans – value– leverage for E1.5 millions to finance E2 millions worth of properties / only 2 loans failed)
- Radical Roots has reserves up to E10 000

Legal Framework

The legal instruments for the co-op housing sector are:

- Industrial and provident society (IPS) Act – it is specifically designed for co-ops and societies set up for the benefit of members (a co-operative) or for the benefit of the community.
- Co-operatives can also register as non-profit companies limited by guarantee. (A number of co-operatives, particularly ones financed by members without government grants, have chosen this registration option because of easier administration available under Company Act legislation, although this advantage has been largely removed by improvements in the arrangements for the administration of Industrial and Provident Societies).

Housing co-operatives do not have their own special legislative framework in housing or property law and operate, like other landlords, under landlord and tenant legislation. The special democratic nature of ‘fully mutual housing co-operatives – (legally called ‘co-operative housing associations’)

is recognised by their exclusion from statutory forms of tenancy and the statutory protection of tenant rights. A fully mutual co-operative is one where the rules of the co-operative require that all tenants be members and that only members can be tenants. Ownership co-operatives and short-life co-operatives tend to be registered as fully mutual co-operatives. Members of tenant management co-operatives have statutory secure tenancies because they remain tenants of their council landlord. Community Gateway Associations are registered under

UNITED KINGDOM

rules that do not require all tenants to be members, so their members have statutory assured tenancies, like the tenants of other low cost rental housing associations registered with the TSA.

All co-operatives that have provided housing with grant funding from government must be registered with and regulated by the Tenant Services Authority. They are also subject to having their activity and performance inspected for efficiency and value for money by the government's Audit Commission.